

Comparative study of the impact of oil price shock on inflation with its impact on inflation determinants in Algeria

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Abstract

This paper aims to compare and determine the impact of oil price shocks on inflation and on its determinants in Algeria during the period 1975-2021. By using the structural vector autoregression (SVAR) model. Our empirical results found that the oil price shock had a greater impact on the determinants of inflation, such as the exchange rate, money supply, and imported goods, than on inflation itself. Moreover, the response of exchange rate to the oil price shock was significant and negative in the short and long run. Nevertheless, the response of imported goods and money supply to the shock was positive. Whilst the response of inflation in Algeria to the oil price shock was weak and negative. In addition, the results of analysis variance showed that oil price shock has a weak contribution to explaining the changes in inflation rates, in contrast to its contribution to the observed changes in inflation determinants.
